REXALL DRUG COMPANY ANNUAL REPORT

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COVER PHOTO: Rexall has pioneered the "up-front" prescription department in drug store layout.

Rexall

FOR THE YEAR ENDED DECEMBER 31, 1955

BOARD OF DIRECTORS

EXECUTIVE COMMITTEE

AUDIT COMMITTEE

OFFICERS

Earl E. Anderson	*Montclair, N.J.*
John Bowles	*Los Angeles, Calif.*
John C. Cornelius	*Minneapolis, Minn.*
Justin W. Dart	*Los Angeles, Calif.*
Scott J. Dow, Jr.	*Los Angeles, Calif.*
Paul A. Draper	*Boston, Mass.*
James Knowles, Jr.	*St. Louis, Mo.*
F. Thatcher Lane	*Litchfield, Conn.*
Walter T. Lillie	*Los Angeles, Calif.*
Adé Schumacher	*New York, N.Y.*
James E. Shelton	*Los Angeles, Calif.*
William C. Tackett	*Palm Springs, Calif.*
Vernon F. Taylor	*San Antonio, Texas*
Thomas Wolfe	*Los Angeles, Calif.*

Justin W. Dart, Chairman	*Los Angeles, Calif.*
Earl E. Anderson	*Montclair, N.J.*
Vernon F. Taylor	*San Antonio, Texas*

Earl E. Anderson, Chairman	*Montclair, N.J.*
Paul A. Draper	*Boston, Mass.*
Vernon F. Taylor	*San Antonio, Texas*

Justin W. Dart	*President*
Roland F. Hallett	*Vice-President and General Counsel*
James Knowles, Jr.	*Vice-President*
Walter T. Lillie	*Vice-President and Treasurer*
Rudolph J. Drews	*Controller*
Harold E. Price	*Secretary*

TRANSFER AGENTS – Guaranty Trust Company of New York, New York – Second Bank-State Street Trust Company, Boston – Bank of America National Trust & Savings Association, Los Angeles.

REGISTRARS – The Chase Manhattan Bank, New York – The National Shawmut Bank of Boston, Boston – California Bank, Los Angeles.

INDEPENDENT AUDITORS – Price Waterhouse & Co.

GENERAL HEADQUARTERS – Rexall Square, 8480 Beverly Blvd., Los Angeles 54, California.

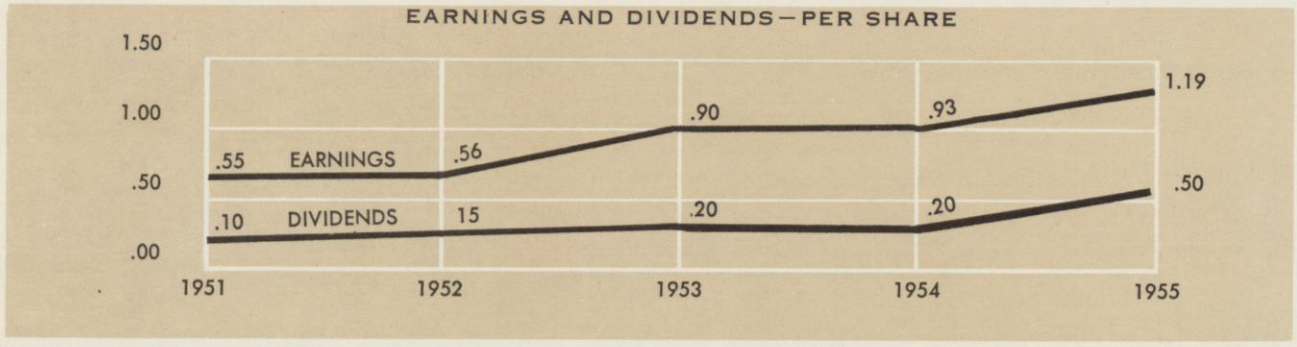
FINANCIAL HIGHLIGHTS

SUMMARY OF INCOME AND EXPENSES

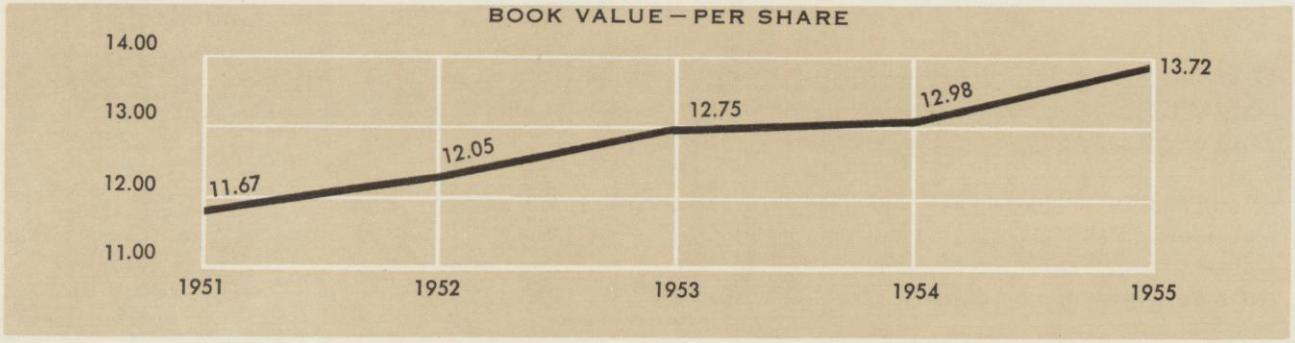
	1955	1954
NET SALES – income received from customers for products sold	$ 153,465,106	$ 176,138,112
OPERATING EXPENSES		
Purchases of materials, products and supplies and expenses of manufacturing, distribution and administration	102,403,142	121,444,116
Wages and salaries of employees	36,908,202	42,425,222
Taxes – Federal, State and Local	7,332,467	6,004,370
Interest on borrowed money	826,043	847,269
Wear and tear on plant and machinery	1,929,385	2,150,516
	$ 149,399,239	$ 172,871,493
NET EARNINGS – before special items of which there were none in 1955	$ 4,065,867	$ 3,266,619
PER SHARE		
Net earnings	$ 1.19	$ 0.93
Dividends paid	0.50	0.20
Book value	13.72	12.98

NOTE: Per share amounts above and in charts below are based upon 3,429,732 shares (net of 71,388 shares of treasury stock) for 1955 and 3,501,120 shares in prior years.

REXALL DRUG COMPANY



REXALL DRUG COMPANY



THE PRESIDENT'S LETTER

To the Stockholders of Rexall Drug Company

Net earnings for 1955 were $4,065,867 or $1.19 per share on 3,429,732 shares as compared with $3,266,619, before special items as shown in the financial statement, or $0.93 per share on 3,501,120 shares in 1954. All divisions operated profitably in 1955. Net sales for 1955 were $153,465,106 as compared with $176,138,112 in 1954. The decline in sales was due mainly to the disposition, as planned, of our Canadian retail company, Mansfield Chocolate Company, two combination drug and grocery stores, Hudson Valley Pure Food Company, Inc., and a group of Company-owned drug stores of marginal potentialities.

At the year end, your Company's cash and short term securities amounted to $17,829,777 as compared with $12,463,262 at December 31, 1954.

Regular quarterly dividends of $0.12½ per share were declared and paid during 1955, or a total of $0.50 per share as compared with $0.20 per share during 1954.

As previously reported, on April 29, 1955, the Company's long term debenture debt was adjusted so as to spread the total payments over a longer period of years, thus providing an increase in retained earnings available for dividends or other corporate uses. As adjusted, the Company's long term debt as of December 31, 1955, consisted of $7,174,320 of 3% debentures due in 1965, $14,846,000 of 25 year 3⅜% notes due in 1980, and $882,691 of real estate obligations with varying maturities.

On May 4, 1955, our former parent company, Rexall Drug, Inc., sole stockholder of Rexall Drug Company, was dissolved. It distributed its holdings of Rexall Drug Company stock to its stockholders in exchange for their Rexall Drug, Inc., stock on a share for share basis. This exchange was made for the purpose of corporate simplification and to eliminate taxes on inter-company dividends. It had no effect on the amounts shown in the financial statements and, therefore, all 1954 amounts in this report have been taken directly from the 1954 report of Rexall Drug, Inc.

Over 99% of the eligible Rexall employees voluntarily joined the Rexall Profit Sharing Retirement Trust as approved at the 1955 Rexall Stockholders' Meeting. For the year 1955 under the terms of this plan the Company contributed $485,000, or approximately $1.88 for each $1.00 contributed by the employees. The employees' contributions are currently invested in U. S. Treasury Bonds and most of the Company's contribution has been invested in Rexall Drug Company capital stock. This stock was purchased by the Rexall Drug Company for the Trust on the New York Stock Exchange.

From an organization and financial standpoint, your Company is in the soundest position in its history.

The Annual Meeting of the Stockholders will be held in Los Angeles, California, on April 24, 1956. In case it is not possible for you to attend, we urge you to exercise your voting rights and mail in your proxy as soon as it is convenient.

Respectfully submitted,

Justin Dart

Justin Dart, PRESIDENT

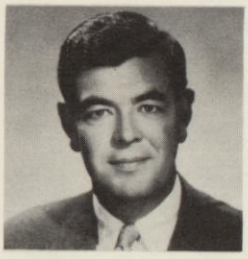
February 23, 1956.

REXALL DRUG
OPERATING ORGANIZATION AND

PRESIDENT
Justin W. Dart

REXALL DIVISION

John Bowles, Pres.



Distributes nationally advertised Rexall products to approximately 10,000 Rexall Franchise drug stores in the United States.
National Headquarters:
8480 Beverly Blvd., Los Angeles 54, California.
Arch T. Carithers, Vice-Pres., Eastern Region
43 Leon St., Boston, Mass.
George H. Davis, Vice-Pres., Central Region
3901 N. Kingshighway, St. Louis, Mo.
Manufactures Rexall trademarked drugs and cosmetics at 3901 N. Kingshighway, St. Louis, Mo.
Manufactures a complete line of stationery and school supplies at Eastern Tablet Corporation, 1415 Broadway, Albany, New York. Raymond J. Flagg, President.

Manufactures and distributes nationally advertised Rexall products to approximately 1500 Rexall Franchise drug stores in Canada.
Neil Macdonald, President, Rexall Canadian operation. Headquarters: 68 Broadview Ave., Toronto 8, Ontario, Canada.

LIGGETT DRUG COMPANY, INC.

Adé Schumacher, Pres.

Operates 118 Company-owned Liggett retail drug stores on the Eastern Seaboard.
Serves 111 Liggett Rexall agency drug stores on the Eastern Seaboard.
Headquarters:
71 West 23rd St.
New York 10, N.Y.

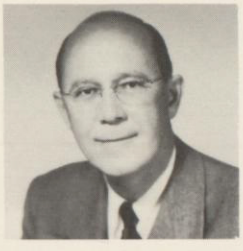
COMPANY

DESCRIPTION OF DIVISIONS

STAFF OFFICERS

VICE-PRESIDENT AND TREASURER

W. T. Lillie



CONTROLLER

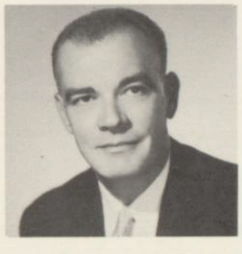
R. J. Drews

VICE-PRESIDENT AND GENERAL COUNSEL

R. F. Hallett

THE OWL DRUG CO.

H. C. Bender, Pres.



Operates 47 Company-owned Owl retail drug stores on the West Coast. Serves 82 Owl Rexall agency drug stores on the West Coast.
Headquarters:
8480 Beverly Blvd.
Los Angeles 54, Calif.

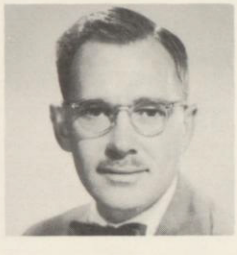
V. C. A. LABORATORIES

S. C. Prusky, Pres.

Distributes proprietary vitamin products to drug stores throughout the United States and Canada. Its principal product is Rybutol, a nationally-advertised B-complex vitamin. It also distributes Juvenal, a liquid vitamin for children, and a variety of other vitamin preparations.
The products of this division are manufactured in St. Louis, Missouri.
Headquarters:
8480 Beverly Blvd.
Los Angeles 54, Calif.

RIKER LABORATORIES, INC.

G. L. Maison, M.D., Pres.



Manufactures ethical drug products which are available to all druggists. These products are sold only by prescription from the physician and are obtained by the druggist from the drug wholesaler. Research and production facilities are located in Los Angeles, California. Other operations of this division are located in Canada, England and South Africa.
Headquarters:
8480 Beverly Blvd.
Los Angeles 54, Calif.

THE SEAMLESS RUBBER COMPANY

A. R. Gow, Pres.

Manufactures hospital and household rubber goods, rubber specialties, adhesive bandages, industrial tapes and sporting goods in New Haven, Connecticut.
Headquarters:
The Seamless Rubber Co.
New Haven, Conn.
Manufactures first aid and hospital supplies at The Absorbent Cotton Company, Valley Park, Missouri, John R. Gibbons, Vice President and General Manager.
Processes special cotton fabrics used in the abrasive industry at the United Cotton Products Company, Fall River, Mass., Edward Hurst, President.

NEW OPERATING HEAD
appointed for Rexall Division

REXALL FRANCHISE DIVISION

The functions of the Rexall Division cover the manufacture, procurement, distribution and sale of nationally advertised Rexall trademarked products to Rexall franchised drug stores (both independent and Company-owned) throughout the United States and Canada.

JOHN BOWLES, NEW PRESIDENT OF REXALL DIVISION, ADDRESSES MEETING OF REXALL DRUGGISTS.

In September, 1955, John Bowles became President of the Rexall Division. Mr. Bowles' appointment followed a succession of promotions for him within the Rexall Division. He had served in this division as sales representative, district manager, regional manager and, most recently, as vice president in charge of the Western Region.

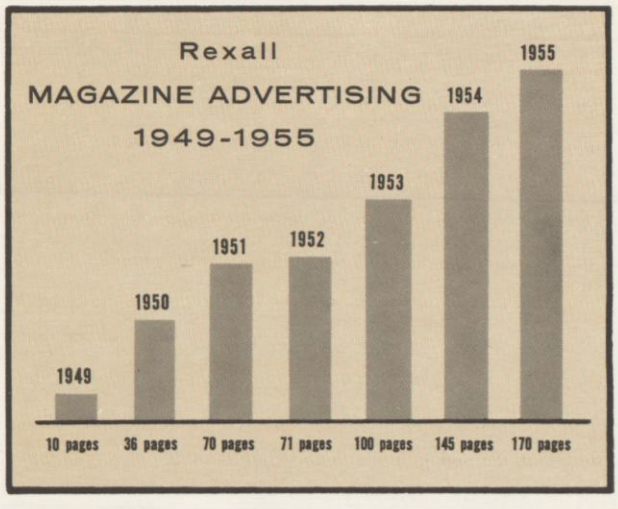
INTENSIVE STORE IDENTIFICATION PROGRAM TYPIFIED BY ABOVE PHOTO WILL CONTINUE TO BE MAJOR OBJECTIVE IN 1956.

THE REXALL PLAN

It is the purpose and function of the Rexall program to give the Rexall dealers in the United States and Canada (of which there are over 11,000) the advantages of strong national identity, a potent national advertising campaign, distribution of an exclusive line of Rexall merchandise, aggressive sales promotion, participation in store improvement and planning, and sponsorship of a consistent program of community service.

For the last ten years, there has been a consistent and progressive diversion of drug store merchandise from drug stores into super-market and other channels. The aggressive Rexall program has placed Rexall stores in a preferred position to meet this problem.

LIGGETT, OWL
schedule new self-service units



ST. LOUIS PLANT

The transfer of our cosmetics and toiletries facilities from Boston to St. Louis which is now complete, will add materially to the efficiency of our manufacturing operations. Substantial additions of new equipment and installation of air conditioning will be completed in 1956.

WAREHOUSES

As a further means of improving our services to the Rexallites and to lower distribution costs, five new warehouses are in various stages of completion.

The San Francisco area unit will be completed early in 1956. The St. Louis and Boston units are scheduled for completion during 1956. The Columbus, Ohio, and Baltimore, Maryland, units are currently in the planning stages and will be completed early in 1957.

RETAIL DIVISION

This division comprises the Liggett Drug Company, Inc., in the Eastern and Southern states and The Owl Drug Co., on the West Coast.

At the end of 1955 these companies were operating 165 retail drug stores. During 1955, six new stores were opened and 43 stores with limited potentials for chain operation were either sold or closed. Virtually all of the stores sold will continue to be outlets for Rexall products.

NEW OWL DRUG STORE, SAN MATEO, CALIFORNIA.

Plans for 1956 call for the addition of at least ten new stores located in prominent shopping centers on both the Atlantic Seaboard and the Pacific Coast.

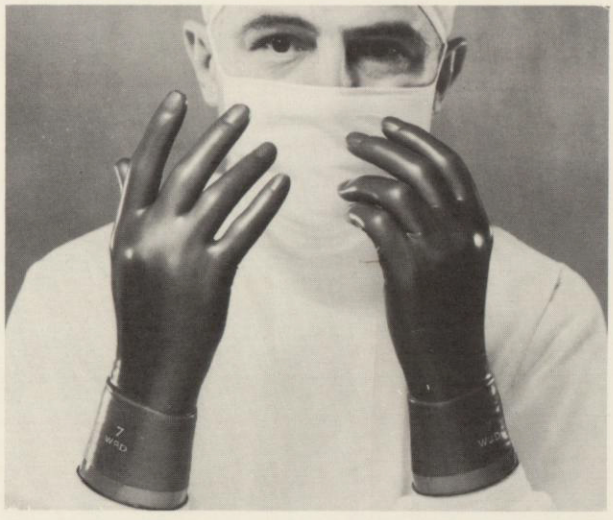
Extensive engineering and methods studies carried on for the past few years have helped to improve operating profits by better control of payroll and store expenses.

MANUFACTURING SUBSIDIARIES

stress product development

SEAMLESS GROUP

Included in this operating division are The Seamless Rubber Company of New Haven, Connecticut, The Absorbent Cotton Company of Valley Park, Missouri, and United Cotton Products Company of Fall River, Massachusetts. In each of these companies the development of new products has been accelerated. In 1956, Seamless will start to operate a small installation for the production of polystyrene polymer, a plastic molding powder.



SEAMLESS IS NATION'S LARGEST PRODUCER OF SURGICAL RUBBER GLOVES.

RIKER LABORATORIES, INC.

Riker Laboratories, Inc., is our medical specialty subsidiary. Earnings of this company in 1955 again produced a very satisfactory return on sales and invested capital.

New products to be marketed in 1956 are expected to further increase Riker sales.

Riker's future, like all ethical drug companies, depends upon the success of its research and product development. Its scientific manpower is of high quality. Riker will continue a relatively substantial annual expenditure in its search for new products.

Foreign subsidiaries of Riker are located in Canada, Great Britain and South Africa. Because of increased working capital requirements in these areas, it is not likely that dividends will be initiated to the parent company in 1956.

V. C. A. LABORATORIES

The principal product of this division is Rybutol, a high-potency multi-vitamin and mineral preparation now available in more than 90% of all American drug stores.

This division operated profitably during 1955 and the outlook for 1956 is for continued progress.

EASTERN TABLET CORPORATION

The Eastern Tablet Corporation, manufacturer of a wide line of stationery products, is located in Albany, New York.

Improvement, modernization and enlargement of the facilities of this company are now under consideration.

INDEPENDENT AUDITORS REPORT

PRICE WATERHOUSE & CO.

530 WEST SIXTH STREET

LOS ANGELES 14

February 23 1956

To the Board of Directors
of Rexall Drug Company

In our opinion, the accompanying statements present fairly the financial position of Rexall Drug Company and its consolidated subsidiaries at December 31 1955 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

REXALL DRUG COMPANY*
and its United States
and Canadian Subsidiaries

CONSOLIDATED BALANCE

ASSETS

CURRENT ASSETS			1955	1954
Cash			$14,847,176	$12,460,762
Short term securities at cost, maturing at $3,002,500 by May, 1956			2,982,601	2,500
			17,829,777	12,463,262
Accounts and notes receivable, less reserves of $611,450 in 1955 and $639,506 in 1954				
Customers			12,699,884	12,591,693
Others			2,305,566	1,754,333
Inventories, at cost or market whichever lower				
	1955	1954		
Raw materials and supplies	$ 4,738,879	$ 5,793,965		
Work in process	2,056,923	2,486,725		
Finished merchandise	27,766,803	29,964,906	34,562,605	38,245,596
Total Current Assets			$67,397,832	$65,054,884
INVESTMENTS, ADVANCES AND NONCURRENT RECEIVABLES				
Investments in and advances to foreign subsidiaries not consolidated (net assets of these subsidiaries were $1,252,000 at December 31, 1955 and $1,097,000 at December 31, 1954)			$ 459,092	$ 473,885
Miscellaneous investments, at cost less reserve			721,944	690,944
Noncurrent receivables, advances and deposits			2,927,999	2,184,412
			$ 4,109,035	$ 3,349,241
PROPERTY ACCOUNTS, at cost				
Land			$ 1,007,071	$ 946,512
Buildings and building fixtures			10,799,324	10,301,009
Machinery and equipment			14,122,518	13,935,014
Store fixtures, leaseholds and improvements			11,627,081	13,136,154
			$37,555,994	$38,318,689
Less – accumulated depreciation			19,917,369	20,449,321
			$17,638,625	$17,869,368
INSURANCE, TAXES, RENT AND OTHER DEFERRED CHARGES			$ 543,935	$ 594,012
GOODWILL AND TRADEMARKS			$ 1	$ 1
			$89,689,428	$86,867,506

No amounts have been included in the financial statements in respect of claims seeking partial recovery of Federal excess profits taxes. The claims filed in 1953 are based on a contention that the excess profits credits should be increased for the years 1940 to 1945, inclusive.

*Incorporated in Delaware

SHEETS DECEMBER 31, 1955 AND DECEMBER 31, 1954

LIABILITIES

CURRENT LIABILITIES	1955	1954
Accounts payable	$ 8,178,822	$ 7,850,705
Accrued wages, salaries and taxes thereon	3,099,318	3,477,569
Other accrued expenses	3,676,273	3,474,983
Current instalments of long term indebtedness	1,376,467	1,467,863
Estimated Federal and Canadian taxes on income for current and prior years	3,386,826	2,532,062
Total Current Liabilities	$19,717,706	$18,803,182
LONG TERM INDEBTEDNESS, less current instalments shown above:		
Sinking fund debentures, 3¼% due 1961		$ 1,100,000
Sinking fund debentures, 3% due 1965	$ 7,174,320	20,675,000
Promissory notes, 3¾% due in semi-annual instalments to 1980	14,846,000	
Real estate obligations	882,691	927,478
	$22,903,011	$22,702,478
STOCKHOLDERS' EQUITY		
Capital stock of Rexall Drug Company Authorized – 5,000,000 shares, par value $2.50 each Issued – 3,501,120 shares	$ 8,752,800	$ 8,752,800
Other paid in capital (Increased in 1955 by $5,822 gain on sale of treasury stock)	10,591,115	10,585,293
Earnings retained and used in the business, per accompanying statement (under indentures covering long term indebtedness, $4,240,000 of the retained earnings at December 31, 1955 is not restricted as to payment of dividends)	28,406,487	26,071,760
	$47,750,402	$45,409,853
Less – cost of treasury stock – 71,388 shares in 1955 and 6,822 shares in 1954	681,691	48,007
Total Stockholders' Equity	$47,068,711	$45,361,846
	$89,689,428	$86,867,506

At December 31, 1955 the companies were committed under some 150 leases expiring more than three years after that date with minimum annual rentals of approximately $2,600,000. Less than 3 per cent of this amount relates to leases expiring more than 25 years after December 31, 1955.

REXALL DRUG COMPANY
and its United States
and Canadian Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS AND EARNINGS RETAINED AND USED IN THE BUSINESS

	1955	1954
Sales, less returns, allowances and discounts	$153,465,106	$176,138,112
Cost of sales, selling, distribution, promotional and administrative expenses, etc.	(141,793,811)	(166,573,708)
Depreciation	(1,929,385)	(2,150,516)
Interest on indebtedness	(826,043)	(847,269)
Provision for Federal and Canadian taxes on income	(4,850,000)	(3,300,000)
Net earnings for year	$ 4,065,867	$ 3,266,619
Special charges (none in 1955):		
Accrual of certain expenses previously recorded on a cash basis, less $898,000 applicable income taxes		(1,065,188)
Provision for excess of estimated losses over estimated gains from disposals and transfers of certain properties, less $880,000 applicable income taxes		(684,065)
Net earnings for year and special charges	$ 4,065,867	$ 1,517,366
Earnings retained and used in the business at beginning of year	26,071,760	25,254,021
Dividends paid – 50¢ per share in 1955 and 20¢ per share in 1954	(1,731,140)	(699,627)
Earnings retained and used in the business at close of year	$ 28,406,487	$ 26,071,760

NOTE: See the President's Letter for comments concerning the corporate reorganization in May, 1955. Net earnings for 1955 are those of Rexall Drug Company consolidated for the entire year. The earnings retained and used in the business at the beginning of 1955 are those of Rexall Drug, Inc. and at the end of 1955 are those of Rexall Drug Company. Dividends paid in 1955 include $437,500 paid by Rexall Drug, Inc. on March 7, 1955 and $1,293,640 paid subsequently by Rexall Drug Company.

CONSOLIDATED STATISTICAL SUMMARY

IN THOUSANDS OF DOLLARS

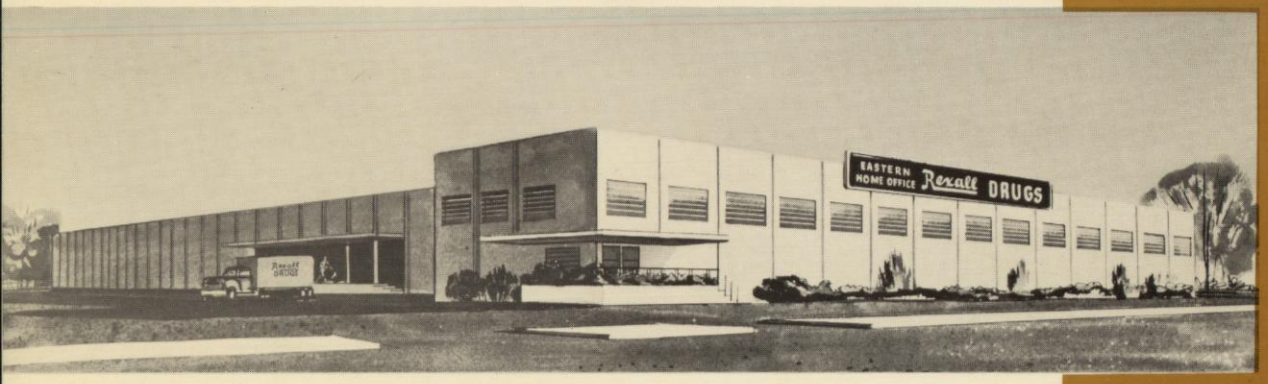
FINANCIAL OPERATIONS

	1955	1954	1953	1952	1951
Net sales	$153,465	$176,138	$189,244	$178,293	$164,278
Earnings before Federal and Canadian income taxes and special items	$ 8,916	$ 6,567	$ 6,456	$ 3,960	$ 3,917
Federal and Canadian income taxes	$ 4,850	$ 3,300	$ 3,300	$ 2,000	$ 2,000
Net earnings	$ 4,066	$ 3,267	$ 3,156	$ 1,960	$ 1,917
Earnings per share of common stock*	$ 1.19	93¢	90¢	56¢	55¢

FINANCIAL POSITION

	1955	1954	1953	1952	1951
Cash and short term securities	$ 17,830	$ 12,463	$ 12,593	$ 10,012	$ 13,446
Accounts receivable	15,005	14,346	15,130	12,849	10,278
Inventories	34,563	38,246	37,225	38,247	36,274
Current Assets	$ 67,398	$ 65,055	$ 64,948	$ 61,108	$ 59,998
Less – Current liabilities	19,718	18,803	20,120	18,085	17,688
Working capital	$ 47,680	$ 46,252	$ 44,828	$ 43,023	$ 42,310
Property, machinery and equipment (net)	$ 17,639	$ 17,869	$ 20,440	$ 21,224	$ 21,752
Investments, advances, prepaid expenses, etc.	4,653	3,943	3,974	4,084	4,195
Less – Real estate obligations	883	927	1,356	1,216	1,242
Other long term indebtedness	22,020	21,775	23,238	24,928	26,378
Stockholders' equity	$ 47,069	$ 45,362	$ 44,648	$ 42,187	$ 40,637
Stockholders' equity – amount per share*	$ 13.72	$ 12.98	$ 12.75	$ 12.05	$ 11.67
Number of stockholders	15,807	14,688	15,435	16,225	17,033

*Per share amounts are based upon 3,501,120 shares for 1951-1954 and for the year 1955 upon 3,429,732 shares which is net of 71,388 shares of treasury stock.



SKETCH OF NEW REXALL EASTERN HOME OFFICE AND WAREHOUSE, BOSTON, MASSACHUSETTS

Rexall

1955